

Carbon pricing can help affordability

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Body

With household costs rising in Canada, some provincial leaders have pushed the federal government to hit the brakes on carbon pricing or accept weak provincial schemes.

Their aversion to market-based climate action is deeply flawed, because slowing carbon pricing won't help affordability.

It will hurt it.

Last month the federal government stood firm, announcing its fuel charge will apply in Nova Scotia, P.E.I. and Newfoundland and Labrador starting Canada Day, joining Alberta, Saskatchewan, Manitoba and Ontario.

Despite provincial pushback, this was a wise move economically.

Most economist would agree the best way to reduce pollution of any kind is to put a price on it. Rather than having government impose specific measures, carbon pricing allows industry and households to choose ways to reduce emissions at the lowest cost for them.

For example, homeowners and landlords can use government incentives to help them move from natural gas to more efficient electric heat pumps, or a business can move from gas-powered vehicles to electric ones. What's essential is that it's left to individuals and businesses to decide.

Almost all the money collected through federal carbon pricing goes back to households and businesses in the provinces where it was collected through rebates they can spend elsewhere. So it's not holding the economy back. Rather, it's shifting economic activity to become greener, and encouraging people to reduce fossil fuel use without filling government coffers or stalling economic growth.

Pollution pricing can be a boon for industry. When you change relative prices in an economy, you get innovation and new entrants. Countries like Canada can be early adopters, and develop and deploy technologies such as hydrogen that are needed in the global transition to renewable energy. Higher carbon prices will also accelerate new investments in everything from electric vehicles to wind and solar farms, from better transit systems to heat pumps.

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The European Union is already moving to the Carbon Border Adjustment Mechanism, so if our price on pollution is riddled with loopholes or ramps up too slowly, some Canadian goods going to European markets will be subjected to tariffs, making them less competitive.

Still, the topic gets tangled in rhetoric about higher gas prices. Carbon pricing can hurt some low-income, long-distance commuters. In those instances, the government can offer relief on the income side without having to adjust market prices or reduce efforts to curb climate change.

Leaders who holler for price caps, market intervention and tax cuts are missing basic economics: making gas cheaper just means we use more gas, and it won't fix supply shortages that push prices up, or change price signals from international markets.

What's more, the war in Ukraine provides a stark reminder that when we detach ourselves from fossil fuel use, we also improve energy security - because renewable energy is mostly local.

Still, we're far from where we need to go.

A recent study in the journal *Nature* found the social cost of carbon - that is, the measurable economic damage it causes - is roughly \$240 for each additional tonne we emit, but Canada's price on carbon is just \$50 a tonne, scheduled to reach \$170 in 2030.

In addition, the pollution price is only on combustion sources, not fugitive sources like methane, so there are still big gaps.

We're still heating the atmosphere. Without strong incentives for businesses and individuals to reduce pollution, and strong disincentives for those who lag behind, we'll not only hurt our health and our planet, we'll hurt our economy, and fall behind as the world advances.

To meet our climate goals and maintain affordability, we don't need to decrease carbon pricing; we need to increase it, while ensuring household rebates grow at the same pace.

As the world is already on track to overshoot the 2015 Paris Agreement's 1.5 C target, younger generations' patience is rightly running thin. Some of the world's largest corporations have already embraced climate action - not out of goodwill, but because it's smart business.

Isn't it time politicians heeded the call, not only from climate scientists but economists as well? And even more so, from their own kids and grandkids?

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